

# Tricks of the Trends

## High-end beers still showing promise, though economic factors present double-edged sword

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“Convenience stores have a real opportunity to drive the next stage of growth for craft beers.”

While Jim Koch, founder of Boston Beer Co., certainly focused on the might of his company’s brews in his comments made during the opening reception of CSP’s third annual Import, Specialty & Craft Beer Summit, the once-small-time brewer recognized the strength of the c-store channel in the category and challenged retailers to take it upon themselves to increase sales through wise assortment and generous marketing.

Those were themes that continued through the next day’s discussion of the category, even as retailers and suppliers recognized the economic challenges that lay before them.

“A year ago, I very aggressively said, ‘This is a no-brainer; double your section,’” said roundtable leader Tom Fox, a partner in the CM Profit Group consultancy in Troy, Mich.

“Now we need to look closer. Do we look at sales? ... Will these trends continue?”

### On Trend Watch

While not recommending retailers start rowing their boats in the opposite direction, Fox did suggest it might be wise to lift the oars for a while until it becomes clear where the economy is going and how that might affect consumer choices.

In setting the stage for the discussion, Fox said, “We’re going to assume this trend of trading up is going to continue,” and not just based on economic factors, but rather choosing the history of another alcohol beverage as a comparison. “As people got exposed to more sophisticated wines, it was hard to go back [to cheaper wines], and I think it’s the same on the beer side.”

And market data shows that “better beers” did gain share for the 20th straight year in 2007, when annual case sales of craft beers grew

### Did You Know?

**32%**

Percentage of c-stores (selling beer) that don’t sell craft beers at all, according to The Nielsen Co.

Participants in CSP’s Import, Specialty & Craft Beer Summit, held June 2–3 in Boston:

### RETAILERS

**Tanjia Bier, Robert Gulley**  
BP Products North America

**Tony McDaniel**  
Circle K Midwest

**Larry Hauck**  
Garb-Ko Inc.

**Anthony Gardy**  
Gate Petroleum Co.

**Ron Lundy**  
Irving Oil

**Fred Faulkner**  
Jaco Oil Co.

**Charles Newman**  
Prima Marketing LLC

**Bill Tencza**  
Quick Chek Food Stores

**Michael Zielinski**  
Royal Buying Group

**John West**  
Southwest Convenience Stores

**Rick Zamarchi**  
Tesoro Petroleum Co.

**Terry Taylor**  
The Spinx Co.

**Todd Siegel, Mike Santiago**  
Thorntons Inc.

### SUPPLIERS

**John Hoffmeister, Tim Lewis, Steve Ott, Joe Samei, John Thomas**  
Anheuser-Busch

**George Ward**  
The Boston Beer Co.

**Kevin Dick, Scott Waters**  
Crown Imports

**Stephen Miloro, Don Walsh, Matthew Watson**  
Diageo-Guinness USA

**Lynn Alexander, James Pendegraft**  
Labatt USA

**Don Bryant, Mike Dempsey, Jim Foley, Jon Komine, Tom Newton**  
Mike’s Hard Lemonade

### SPECIAL GUESTS

**John Koch**  
The Boston Beer Co.

**Tom Fox**  
CM Profit Group

**Mike Kaskie**  
Information Resources Inc.

**Shane Ely**  
The Nielsen Co.

13% and domestic superpremium beers grew 8%, according to data from Information Resources Inc. (IRI), Chicago. Imports were down 2.1%. Based on these trends, “better beers” are expected to account for a 30% share of the beer category by 2018, a major increase over the current 19% share.

The c-store channel owns a 34% share of the beer business, worth about \$14 billion, according to IRI. That’s well above the next-closest channel, which is on-premise, with 21%. Add to that the trend of fewer people dining out because of the economic crunch, and c-store retailers have an opportunity to grow their share of the category.

“If casual dining is going down, where are the brewers going to pick it up?” asked Mike Kaskie, executive vice president of the strategic solutions group at IRI. “Most likely, it’s in the c-store channel,” he said, pointing out that growing a single beer share point is worth \$141 million to the channel.

## Drinking Occasions

The major challenge for c-store retailers to grow import, specialty and craft beer sales, however, comes in the form



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**ROBERT GULLEY**

*BP Products North America*

of drinking occasions. According to the 2006 Meyers C-Store Close-Up Study, 98% of c-store beer shoppers make their purchasing decision before they even enter the store, and 95% of those shoppers know what brand of beer they want to buy. Meyers Research Center, New York, is a market-research supplier that does work for some of the major beer brewers.

“Those decisions are made before they even get in the [parking] lot,” said Anthony Gardy, category manager for Gate Petroleum Co., Jacksonville, Fla.

“Nobody looks at selection; nobody looks at shelf tags.”

Added George Ward, director of off-premise for Boston Beer Co.: “A lot of people don’t know you can get these [high-end beer] products in a c-store.”

**Challenge No. 1:** If the majority of beer shoppers already know what brand they want to buy, and they don’t expect a c-store to stock their upscale brand, how do you get him in the store? Retailers said signage, varied package size and product placement can all make a difference.

Certainly, signage can go a long way toward getting the word out that a store stocks Corona, Sierra Nevada or Smirnoff Ice, but as a video presentation of customer intercepts by BP’s Robert Gulley illustrated, signage only goes so far.

“We spend lots of money for POP [point-of-purchase signage]. They didn’t see any of it,” said Gulley, senior category manager for the Houston-based oil company. “They don’t associate us [the c-store industry] with these higher-end brands.”

“It’s an education process,” said Larry Hauck, director of marketing for 7-Eleven franchisee Garb-Ko Inc., Saginaw, Mich. “We do have consumers in our store that buy [high-end beers], but if they’ve never seen the product in our stores, they’re not going to be looking for it. ... We need to put it right in front of the consumer as they walk in the door.”

That, however, raises space issues, said Rick Zamarchi, retail category manager for Tesoro Petroleum Co., San Antonio. “I don’t have space for an endcap for every suitcase [of beer] I stock,” he said.

## Getting Crafty

“Better beers” (i.e., crafts, super premiums and imports) gained share for the 20th straight year in 2007 and are expected to account for nearly one-third of the beer market by 2018.

Beer segment	Change in sales
Craft	13%
Domestic Superpremium	8%
Import	2.1%
Domestic Light	-0.5%
Regular Domestic	-4.2%

Source: Beer Marketers Insights and Information Resources Inc.

## One at a Time

The classic method of introducing c-store customers to new products is through single-serve packaging, and many import, craft and specialty beer brands are available in such packaging. However, the customer interested in a 22-ounce bottle “[is] generally not the consumer that’s buying high-end beers,” said Ward.

“Microbrew and craft single-serves generally don’t sell as well,” agreed Gulley. “They’re going to be enjoyed with food or a special occasion, whereas the more developed singles are going to be drunk right away.”

Ron Lundy, category manager for Irving Oil, Portsmouth, N.H., is bridging that gap with a test of what he calls a “discovery beers” section. The build-your-own six-pack section features eight high-end beer brands at any one time, allowing customers to buy one bottle of each brand to figure out which ones they really like. Since initiating the 18-store test, “variety 12-pack sales are really picking up,” he said.

The story is different for single-serve bottles of flavored malt beverages



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**JOHN WEST**

*Southwest Convenience Stores*

(FMBs), also known as progressive adult beverages (PABs). “Singles are outselling six-packs,” said Don Bryant, vice president of trade development for Mike’s Hard Lemonade, Seattle. The company also is testing a 16-ounce single-serve can to capitalize on that trend.

**That leads to Challenge No. 2:** With high-end beers occupying minimal space in c-stores—most retailers in the

meeting said they grant them two or three shelves—out-of-stocks become a concern.

“If 98% of people have already chosen their beer [brand] before the get to the stores, you have to have it in stock,” said Mike Santiago, senior category manager for Thorntons Inc., Louisville, Ky.

Data from the Meyers c-store study shows shoppers will switch stores if they encounter an out-of-stock situation two or three times. That would suggest an increased importance of having additional stock on the store floor.

However, consider this additional data from Meyers: 96%—96%!—of all beer is consumed the same day it is purchased.

“It’s got to be cold,” said Gulley. “Even if it’s for a party, they’re probably going to drink some of it today.”

Thus, the meeting attendees considered stealing more cooler space for high-end beer, and not just from the domestic-beer set, but from other beverage categories as well.

Kaskie of IRI said there’s data to show such a move is warranted (see sidebar, p. 92). “Think ‘share of mouth’—beer vs. milk; space vs. profit; space vs. volume. That’s how other categories think of you,” he said. “Go after other share-of-mouth liquid categories.”

## Man Against Himself

Retailers said that their biggest competition often isn’t another retailer, but rather “the guy two doors down the hall from me” who is fighting for space for nonalcohol beverages. “As I try to expand [the beer set], they’re trying to expand, too,” said Gulley.

On the other hand, for most smaller retailers, the person in charge of the beer set is also in charge of other beverages.

## Sizing Up

While 6-packs (30%) and 12-packs (45%) account for three-quarters of all convenience-store beer purchases, their popularity is dropping as more consumers turn to larger packages or singles.

Package size	Case volume change vs. a year ago
12-packs	-43,529
Six-packs	-261,391
Singles	78,857
18-packs or larger	290,387
Other package sizes	6,318

Source: The Nielsen Co., year to date ending May 3, 2008



## The Economy and Beer Sets

After a long period of convenience-store operators adding new and different products and services to expand their appeal to consumers, Mike Kaskie (left) of Information Resources Inc., Chicago, offered a message about taking a step back in the current economy.

"I really think now more than ever your bread and butter is tobacco, beer, wine and spirits," said Kaskie, executive vice president of IRI's strategic solutions group, during CSP's Import, Specialty & Craft Beer Summit.

"The No. 1 topic my clients want to hear about is the economy," he said. "It's impacting the beer industry in a big way."

Thus, to begin his presentation, Kaskie said that c-stores experienced a slowdown in sales growth over the past two quarters.

According to IRI data, dollar sales for 33 c-store categories, after peaking at a healthy growth rate of 13.4% in the third quarter of 2007, dropped to 8.2% growth in the fourth quarter and 6.3% growth in the first quarter of 2008. Further, while unit growth hit 5.9% growth in Q3 2007, it slowed to 1.1% in Q4 and dropped further to -1.9% in the first quarter of this year.

"You can run but you can't hide from these numbers," Kaskie said.

But while the number of trips to c-stores to purchase snacks, personal-care products, health-care products and nonalcohol beverages were down by double digits for the 13 weeks ending Feb. 24, 2008, vs. a year ago, trips for tobacco and, especially, beer/wine/spirits were up 5% and 60%, respectively.

Shane Ely, beverage-alcohol manager for The Nielsen Co., New York, said economic factors are giving c-stores an edge in this case. "Consumers are looking to combine as many trips into one as they can," he said. "This is a great opportunity to catch the consumer who just spent \$70 on gasoline. They may not want to drive to the liquor store, so they can get their beer or flavored malt beverage at the same c-store."

Added Kaskie, "I'm bullish on the convenience channel, and I'm bullish on where your growth is going to come from," he said, citing an increase in the number of Hispanics (up 8.7%) and baby boomers (up 2.2%) shopping in c-stores, and their combined value to the retail market growing by \$47 billion over the next 10 years.

"I plan the whole vault," said Zamarchi of Tesoro. "If I don't have the beer space to stock the days of supply I need, I'll pull the numbers for the whole cooler. But just as often, the other [beverage] categories need more space, too."

Gardy of Gate Petroleum, however, said he has found opportunities to spread the beer gospel. "When I look at a take-home door that's all Coke or Pepsi, I used to use that as a traffic

driver," he said. "[As soft-drink sales drop], I took those out and replaced them with beer."

Space challenges or not, economic downturn or not, import, specialty and craft beer remains an opportunity for retailers.

"A lot of younger consumers are now working in offices," and they've become accustomed to drinking high-end beers, said Scott Waters, director

of convenience stores for Crown Imports, Mission Viejo, Calif. "It remains an affordable luxury."

Added John Thomas, sales director for Anheuser-Busch, St. Louis, "Do lower-income consumers buy high-end beers? Absolutely, depending on the occasion. ... We need to manage the cold vault around the occasion to draw



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**TOM FOX** *CM Profit Group*

those people in."

John West, director of sales and marketing for 7-Eleven licensee Southwest Convenience Stores, Odessa, Texas, said he's seen high-end beer become a reward of sorts for consumers. "With the shift in the economy, we are seeing more people buying bigger packages, whether it's a 24-pack or a 30-pack," he said. "But ... they're also picking up a six-pack of something different—usually a high-end beer—to reward themselves.

"They'll share the 30-pack with friends, but that six-pack is for them." ■